

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
CUSTODY MANAGEMENT**

June 19, 2000

This Policy is effective immediately upon adoption and supersedes all previous Custody Management Policies. No previous written Custody Management Policy exists.

I. PURPOSE

This Policy shall establish the custody of California Public Employees' Retirement System ("the System") assets, the standards of prudence, and service expectations ensuring that the System's assets are effectively safeguarded.

This Policy shall also address the responsibilities and delegations of relevant parties and shall be informative to investment managers and other interested parties whose business operations may be affected by its adoption.

II. POLICY OBJECTIVE

This Policy shall ensure the efficient and accurate custody of the System's assets through a carefully planned and executed program for safekeeping, delivery, securities valuation, investment performance reporting, and other custodial services provided. This Policy shall establish the standards through which the System evaluates the effectiveness of the custody implementation.

III. RESPONSIBILITIES AND DELEGATIONS

- A.** Pursuant to California Government Code Section 20172, the System's Board has statutory authorization to retain a bank or trust company to serve as custodian for safekeeping securities, delivery, valuation, investment performance reporting, and other custodial services in connection with investments of the retirement fund.

Pursuant to Article XVI, Section 17 of the California Constitution, the System's Board is granted plenary authority and exclusive fiduciary responsibility over the assets of the System. Through Resolution No. 92-04-B, the Board exercises its constitutional

responsibility and control over the process for the procurement of all investment assets of the retirement fund. These responsibilities include the ability to delegate all or a portion of these responsibilities to Staff.

While the System's Board of Administration ("the Board") is responsible for the custody of the assets, it delegates specific responsibilities to System Staff to carry out its fiduciary responsibilities.

B. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Investment Committee delegated the responsibility for administering custody management portion of the System to the Investment Staff through the Delegation of Authority (EXE 95-101). The Investment Committee's duties include, but are not limited to, the following responsibilities:

1. Selecting a custodian to hold assets.
2. Negotiating fees and contracts.
3. Monitoring the delivery of services provided by its custodian.

C. The **System's Investment Staff** ("the Staff") duties include, but are not limited to, the following:

1. Developing and recommending the Policy to the Investment Committee.
2. Developing and maintaining a procedures manual subject to periodic reviews and updates, outlining Staff operational procedures used in implementing this Policy.
3. Implementing and adhering to this Policy.
4. Reporting immediately to the Investment Committee all material violations of the Policy with explanations and recommendations.
5. Reporting to the Investment Committee about the performance of the custodian.
6. Reporting to the Chief Investment Officer concerning the implementation of this Policy.

7. Notifying the custodian in writing of the appointment, suspension, or termination of any investment manager.
8. Developing and recommending the criteria and methodology to the System's Investment Committee for selecting the custodian consistent with Section IV. A and the System's procurement procedures.
9. Determining that all other original investment documents including deeds, titles, partnerships, and insurance contracts shall be safeguarded in a fireproof safe within the System's organization.

IV. RESPONSIBILITIES AND CRITERIA OF THE CUSTODIAN

- A.** The custodian, at a minimum, must meet the following criteria:
 1. Be of global stature;
 2. Have sufficient financial strength to protect the interests of the System;
 3. Have accounting and custodial capabilities and internal controls consistent with industry standards; and
 4. Other criteria as determined by the System.
- B.** The custodian shall provide the custodial, accounting, and reporting services for all assets held in the name of the System. The custodian shall provide reporting services for any accounts custodied by additional agents or sub-custodians appointed by the System or the Custodian in accordance with the following stipulations:
 1. The custodian shall establish on its books and records, a separate System account (Account), or sub accounts for purposes determined by the System, consisting of all assets owned along with net asset values or market values, where applicable, and earnings or income related to these assets.
 2. The custodian shall hold and direct its agents or sub-custodians to hold all securities and other assets of the System in separate accounts or sub-accounts. The assets are not to be commingled with general assets or deposits of the custodian or sub-custodians, except for cash awaiting instructions or other disposition. Custodial assets are the

sole property of the System and not general assets of the custodian. The System agrees that the securities and other assets of the System may be held by the custodian or its sub-custodians and may be maintained by them in the securities depositories, clearing agencies, and book entry systems agreed upon.

3. The custodian shall release and deliver, or direct its agents or sub-custodians to release and deliver, assets of the System upon Proper Instructions as provided in the Staff Operations Manual.
4. The custodian shall claim any security they believe another institution, depository, and third party lending agent holds and registers in the System's name.
5. The custodian shall register all of the System's assets in the name of CalPERS or as required by the depository provided books and records, which are maintained by the custodian showing System ownership.
6. The custodian may open one or more cash accounts when disbursing or remitting assets in the transition process to and from the System.
7. The custodian shall collect income, interest, dividends, refunds, and other proceeds accruing to securities of the System, except for securities loaned by third parties.
8. The custodian shall pay out or direct its agents or sub-custodians to pay out money of the System and adhere to the following Proper Instructions provided in the Staff Operations Manual.
9. The System delegates to the custodian the discretion to appoint and remove agents or sub-custodians to assist them in carrying out its responsibilities. The custodian shall retain full responsibility and liability for selection of said entities, their actions, errors and omissions. Eligible foreign custodians include a qualified foreign bank or a majority owned direct or indirect subsidiary of a United States Bank or bank holding company. The custodian shall report in writing to the Staff any agent or sub-custodian appointed, suspended, or terminated.

10. The custodian shall process proxies or proxy materials in accordance with the System's proxy voting policy and procedures as outlined in the Staff Operations Manual.
11. The custodian shall transmit promptly to the System or the Investment Manager all written information received concerning assets held in the Fund in its custody.
12. The custodian shall keep accurate and detailed accounts of all investments, receipts, and other transactions involving the System. These records shall be separate for each sub-account and include proof of all transactions involving securities held in the account. The securities shall be priced and valued by a third party pricing service selected by the System.
13. The custodian shall process all cash movements across its books in full compliance with the state of California regulations regarding claims and remittances.
14. The custodian shall provide the System's Staff access to its workstation products on the System's Local Area Network. The custodian shall ensure that products are updated in a timely manner and released with the completion of new versions.

V. CUSTODY OF ASSETS OUTSIDE THE UNITED STATES

- A.** All sub-custodians and agents appointed by the primary custodian to hold assets outside the United States must comply with the standards for eligible foreign custodians.
- B.** Eligible foreign custodians are entities that are incorporated or organized under the laws of a country other than the United States and meet the following criteria:
 1. Qualified foreign banks or majority-owned direct or indirect subsidiaries of U.S. banks or bank holding companies.
 2. Securities depositories or clearing agencies that act as systems for the central handling of securities or equivalent book entries in the countries that are regulated by foreign financial regulatory authorities.

3. Securities depositories or clearing agencies that act as transnational systems for the central handling of securities or equivalent book entries.
- C.** The custodian is responsible for approving all sub-custodians and agents appointed by the primary custodian inside and outside the United States. The custodian's duties include, but are not limited to, the following responsibilities:
1. Approving selected sub-custodians or agents appointed by the custodian to hold assets outside the U.S.
 2. Approving negotiated fees and contracts between sub-custodians or agents and the custodian where the System is responsible.
 3. Monitoring the delivery of services of appointed sub-custodians or agents through written updates provided by the custodian's due diligence reports.
- D.** The System's Staff duties include, but are not limited to, the following responsibilities:
1. Ensuring the custodian implements and adheres to this Policy regarding custody of assets outside the U.S.
 2. Reporting immediately to the Investment Committee all violations of this Policy related to custody of assets outside the U.S. with written explanations and recommendations.
 3. Reporting to the Investment Committee the performance of all sub-custodians or agents appointed by the primary custodian.
 4. Reporting to the Chief Investment Officer concerning the implementation of this Policy related to custody of assets outside the U.S.
- E.** The standards and criteria of agents or sub-custodians appointed by the custodian to safeguard assets outside the United States shall comply with the standards and criteria of the custodian written in Section IV. of this Policy.

VI. PRUDENCE

- A.** The custodian, sub-custodians, and agents shall acknowledge their fiduciary relationship with the System. They shall discharge each of their duties therein and exercise each of their powers (as those duties and powers are defined herein), with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters uses in the conduct of an enterprise of a like character and with like aims.
- B.** The custodian is required to contractually inform all sub-custodians and agents of this fiduciary relationship.

VII. ETHICS AND CONFLICTS OF INTEREST

- A.** The custodian shall not directly or indirectly receive any benefit from recommendations made to the System. The custodian shall disclose to the System any personal investment or economic interest, which may enhance the recommendations made to the System. For further information concerning ethics and conflicts of interest, refer to Section III of the Protocol for Disclosure and Management of Potential Conflicts of Interest of Investment Consultants and Advisors for the general responsibility of consultants and advisors.
- B.** The custodian shall acknowledge that the System is subject to the provisions of the Fair Political Practices Laws of California and the custodian shall comply promptly with any requirement thereunder.
- C.** If required by law, the custodian shall require its personnel and all later substitutions therefore to file Statements of Economic Interests in compliance with the System's Conflict of Interest Code. All such reports shall be filed simultaneously with the Staff. Refer to Sections VI., VII., and VIII. in the Protocol for Disclosure and Management of Potential Conflicts of Interest of Investment Consultants and Advisors for all procedures and reporting responsibilities when a conflicts of interest have been identified.

VIII. CUSTODIAN LIABILITY**Full Liability**

The custodian shall be fully liable for any loss to, or diminution in, the value of the Fund resulting from the custodian's own acts or omissions, if the resulting loss or diminution in value of the Fund is the proximate result of the custodian's breach of its duty of care the agreement in place or any

other negotiated contract between the custodian and the System, except when such acts or omissions are in compliance with Proper Instructions. This liability shall extend to the acts or omissions of the custodian's agents and sub-custodians.

The System may, at its discretion, limit the liability of the custodian when doing so does not compromise the rights of the System or the safety or security of the System's assets.

IX. EVALUATION

- A. Time and accuracy are of the essence for the delivery of services under this Policy. The Staff Operations and Procedures Manual shall provide for the measures of the standards of service, its timeliness, and its accuracy.
- B. Each year, and at the end of the custodian's contract term, the System shall conduct an evaluation of the custodian's services. The evaluation shall be based on the custodian's responsiveness and the System's satisfaction with the services provided including safekeeping, transaction processing, delivery, securities valuation, investment performance reporting, and all other services in connection with the Fund.
- C. An audit may be completed at any time with scope and timing solely determined by the System.

X. GLOSSARY OF TERMS

The following Glossary of Terms contains definitions also referenced in the System's Master Glossary of Terms.

Agent – Individual authorized by another person, called the principal, to act in the latter's behalf in transactions involving a third party. Banks are frequently appointed by individuals to be their agents, and so authorize their employees to act on behalf of principals. Agents have three basic characteristics: 1) They act on behalf of and are subject to the control of the principal. 2) They do not have title to the principal's property. 3) They owe the duty of obedience to the principal's orders.

Custodian – A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Exchange – Offer by a corporation to exchange one security for another.

Foreign Custodian – An entity that is incorporated or organized under the laws of a country other than the United States.

Foreign Exchange – Instruments employed in making payments between countries – paper currency, notes, checks, bills of exchange, and electronic notifications of international debits and credits.

Foreign Financial Regulatory Authority – A governmental body or foreign equivalent of a self-regulatory organization empowered by a foreign government to administer or enforce its laws relating to the regulation of fiduciaries, trusts, commercial lending, insurance, trading in contracts of sale of a commodity for future delivery, or other instruments traded on or subject to the rules of a contract market, board of trade or foreign equivalent, or other financial activities.

Future/Futures Contract – Agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date.

Option – Right to buy or sell property that is granted in exchange for agreed upon sum. If the right is not exercised after a specified period, the option expires and the option buyer forfeits the money.

Proper Instructions – Proper Instructions are instructions received by the custodian from the System, any Investment Manager (including without limitation any securities lending agent), or any person duly authorized by either of them with respect to the pertinent asset. Such instructions may be in writing signed by the authorized person, or may be through electronic or electro-mechanical devices, or may be through such other means as may be agreed to from time to time by the custodian and the party giving such instructions. In addition to the above forms of instructions, the custodian may accept trade affirmations or confirmations from an institutional delivery system as the System shall certify to the custodian, and cause each Investment Manager to similarly certify, the names and specimen signatures of persons authorized to give Proper Instructions. The custodian shall be entitled to rely upon the identity and authority of such persons, until it receives notice from the System or the Investment Manager to the contrary.

Proxy – Written power of attorney given by shareholders of a corporation, authorizing a specific vote on their behalf at corporate meetings.

Repurchase Agreement – Agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.

Safekeeping – Storage and protection of a customer’s financial assets, valuables, or documents, provided as a service by an institution serving as an agent and, where control is delegated by the customer, also as custodian.

Security – Instrument that signifies an ownership position in a corporation (stock), a creditor relationship with a corporation or governmental body (bond), or rights to ownership such as those represented by an option, subscription right, and subscription warrant.

Sub-custodian – Any bank or other financial institution appointed by the master custodian to provide custody of assets within a specified region.

Tender – Act of surrendering one’s shares in a corporation response to an offer to buy them at a set price.